

Message Text

CONFIDENTIAL

PAGE 01 PHNOM 00071 030558Z

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EXDIS
E.O. 11652 GDS
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SUBJ: HYPERINFLATION IN CAMBODIA - RICE DISTRIBUTION

REF: STATE 252150"290150Z DEC 73

FOR STATE/AID

1. IN OUR VIEW THE RICE SITUATION IN CAMBODIA IS NOT ANALOGOUS TO THE SITUATION IN VIETNAM. IN VIETNAM, GOVERNMENT STOCKS REPRESENT ONLY A PORTION OF THE TOTAL RICE TRADE WHICH IN THE RECENT PAST -T LEAST WAS LARGELY IN THE HANDS OF PRIVATE MERCHANTS. GVN RICE STOCKS THEN HAVE ONLY A PARTIAL INFLUENCE ON MARKET PRICES. IN CAMBODIA HOWEVER, 90 PERCENT OF THE RICE DISTRUBTION FOR PHNOM PENH AND OTHER GKR HELD RICE DEFICIT AREAS DURING 1974 WILL BE DRAWN FROM GOVERNMENT STOCKS, I.E., PL 480 RICE AND RICA PURCHASED BY THE GKR IN BATTAMBANG. DISTRIBUTION OF GOVERNMENT STOCKS THEREFORE WILL HAVE OVERWHELMING IMPACT ON MARKET PRICES.

2. THIS IS ALREADY THE CASE. WITH INCREASED DISTRIBUTION WHICH THE RECENT BUILDUP IN STOCKS HAS PERMITTED, THE PRICE OF RICE IN THE FREE MARKET HAS DROPPED FROM A HIGH OF 12,000 RIELS PER 100 KG OF U.S. RICE ON NOVEMBER 29 TO 9,000 RIELS ON DECEMBER 18. IT HAS REMAINED AT THIS LEVEL SINCE. WITH ADDITIONAL AMOUNTS OF RICE AND FURTHER DISTRUBTIONS IN JANUARY WE HOPE TO CAUSE THE PRICE OF U.S. RICE TO DROP SOMEWHAT FURTHER.

3. CONSEQUENTLY WE CALCULATE THAT THE REQUIREMENT FOR AN
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 PHNOM 00071 030558Z

ADDITIONAL 20,000 TONS IN FY 74 WILL NOT BE EXCEEDED. EXPERIENCE

HAS DEMONSTRATED THAT WHEN DISTRIBUTION INCREASED FOR SEVERAL MONTHS, THE HIGHER DISTRIBUTION WAS BALANCED BY LOWER DRAWDOWNS IN SUCCEEDING MONTHS. THIS WAS IN FACT THE CASE LAST SPRING WHEN DISTRIBUTION ROSE TO 650-700 TONS A DAY IN LAST MAY AND EARLY JUNE AND FELL LATER IN JULY AND AUGUST TO BELOW 450 TONS.

4. OUR SPECIFIC TARGET IS TO REDUCE PRICES OF POPULAR GRADES OF RICE, (I.E. PL 480 RICE) TO LEVELS AS CONSISTENT AS POSSIBLE WITH OFFICIAL PRICES. HOWEVER, WE INTEND TO LET THE PRICES OF BATTAMBANG RICE FLOAT. THIS RICE WILL BE PURCHASED BY THE MIDDLE AND UPPER CLASSES. RECENT ANALYSIS OF THE GOVERNMENT DISTRIBUTION SYSTEM HAS LED US TO BELIEVE THAT MOST PEOPLE IN PHNOM PENH ARE PURCHASING RICE FROM OFFICIAL CHANNELS AT OFFICIAL PRICES. THOSE THAT ARE NOT ARE NEWLY ARRIVED REFUGEES, PEOPLE SHIFTING FROM ONE PART OF THE CITY TO ANOTHER, AND SOME MILITARY DEPENDENTS THAT ARE NOT YET OFFICIALLY ENTITLED TO DRAW RICE FROM THE MILITARY SYSTEM.

5. IT IS OBVIOUSLY NOT POSSIBLE TO DENY RICE THAT THE ENEMY NEEDS AND IS DETERMINED TO OBTAIN. WE DO NOT BELIEVE, HOWEVER, THAT DIVERSIONS HAVE BEEN SIGNIFICANT FOR THE ENEMY APPEARS TO HAVE ACCESS TO REASONABLE STOCKS OF DOMESTIC RICE IN THE AREAS WHICH THEY CONTROL. CAPTURED PRISONERS ARE FOUND TO BE IN GOOD HEALTH AND INTERROGATION HAS REVEALED THAT FOR THE MOST PART THE RICE NEEDS ARE MET BY DOMESTIC SUPPLIES AND ONLY IN RARE INSTANCES BY IMPORTED RICE. WE HAVE NO INFORMATION THAT WOULD LEAD US TO BELIEVE THAT RICE IS ENTERING VIETNAM FROM CAMBODIA. THE PHYSICAL ISOLATION OF PHNOM PENH WORKS AGAINST SUCH A DIVERSION.

6. WE HOPE THAT THIS YEAR WE WILL BE ABLE TO OBTAIN THE AMOUNTS OF RICE WE BELIEVE NECESSARY EARLY IN THE GAME AND THUS AVOID THE "PERILS OF PAULINE" EPISODES THAT HAVE CHARACTERIZED LAST YEAR. IN 1973 THE PROBLEM WAS NOT TOO LOW A PRICE EARLY IN THE YEAR. IT WAS SIMPLY THERE WAS NOT ENOUGH RICE IN THE PIPELINE. REVIEW OF OUR PAST PROJECTIONS INDICATES THEY HAVE BEEN HISTORICALLY QUITE ACCURATE. IN OUR JUDGEMENT AN ADDITIONAL 20,000 MT OF RICE WILL INDEED TURN THE TRICK. WE RECOMMEND IT BE PROVIDED NOW ESPECIALLY WHILE PL 480 RICE IS AVAILABLE IN OUR DISCUSSIONS WITH THE GKR WE HAVE NOT PROPOSED A "FLOOD THE MARKET STRATEGY" BUT RATHER HAVE PROPOSED A MORE LIBERAL DISTRIBUTION SYSTEM. THIS CONFIDENTIAL

CONFIDENTIAL

PAGE 03 PHNOM 00071 030558Z

APPEARS TO BE WORKING AND WE FIRMLY BELIEVE WILL CONTINUE TO WORK, PROVIDED OF COURSE A SUFFICIENT AMOUNT OF RICE IS PROVIDED UNDER PL 480.
ENDERS

NOTE BY OCT: EXDIS ADDED PER S/S-O - MR. FINNERTY.

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NNN

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